LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 199** SLS 09RS 624

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 28, 2009 8:16 AM

Author: RISER

Dept./Agy.: Economic Development

Subject: Digital Interactive Media Tax Credit

Analyst: Greg Albrecht

TAX/TAXATION EG DECREASE GF RV See Note

Removes the Jan. 1, 2010, termination date for issuance of digital interactive media tax credits, makes them refundable instead of carried-forward, and increases the rate of the credit for the first through the sixth year after certification to 20% of

Current law provides transferrable income tax credits for state-certified digital interactive media project expenditures from a schedule of credit rates: 20% in the first & second year after certification, 15% in the third & fourth years, and 10% in the fifth & sixth years. Recipients of credits must commit to continue business operations in the state at a defined minimal level for at least one year after generating credits. Projects must be certified prior to January 1, 2010.

Proposed law eliminates the January 1, 2010 subset of the program, eliminates the schedule of credit rates and replaces those rates with a single rate of 20% of expenditures. Changes the benefit mechanism from a tax credit to a rebate and allows the Department of Economic Development to certify the rebate amount to the Department of Revenue on behalf of the program investor.

EXPENDITURES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	DECREASE	DECREASE	DECREASE	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

The Department of Revenue would incur one-time costs of several thousand dollars of programming and staff time to modify its systems to incorporate changing the program from a multi-year credit to a "single" refundable credit.

REVENUE EXPLANATION

The new single rebate rate of 20% is the same as the current 20% rate earned in the first and second years of a project, but is greater than the current 15% rate earned in the third and fourth years of a project, and the 10% rate currently earned in the fifth and sixth years of a project. These changes work to increase the state's revenue loss exposure from the program.

The current program is still in its infancy with limited data reflecting actual program usage. Current statistics from LED report 22 applications for the program with proposed expenditures totaling over $90 million (including over $43 million of resident payroll, 48% of total spending). However, only four audit reports have been received reporting $3.1 million of expenditures over three years and $579,000 of tax credits awarded. The Department of Revenue reports $179,000 of tax credits claimed over three years, as well. For illustration purposes, were these four credit awards made at the 20% rate proposed by this bill, an additional $39,000 of tax credits would have been granted. The additional revenue loss exposure resulting from this bill might ultimately be relatively small because the bill increases the credit rate only for expenditures occurring in a third, fourth, fifth, and sixth year of a project. The extent to which participating projects will actually make expenditures over that many years is uncertain at this point, but it seems unlikely that many projects will take that long to develop.

The bill also changes the program benefit from a tax credit to a direct payment from total current collections where LED would file the appropriate documentation with LDR on behalf of the digital media investor. This may expedite the flow of benefits to investors as payments to investors would be expected to be made by LDR fairly quickly after their expenditures are certified by LED. Thus, annual revenue loss realizations (benefit payments) should approximate annual benefit issuance as the program progresses.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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